

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

St. Joseph Public Transportation Authority

**Financial Report
September 30, 2007**

St. Joseph Public Transportation Authority

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Independent Auditor's Report

To the Board of Directors
St. Joseph Public Transportation Authority

We have audited the accompanying basic financial statements of St. Joseph Public Transportation Authority as of September 30, 2007 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain written representations from management of the Authority concerning all transactions during the fiscal year, a portion of which took place under substantially different management.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the written representations referred to in the above paragraph been furnished to us by management, the basic financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph Public Transportation Authority at September 30, 2007 and the changes in its financial position, including cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise St. Joseph Transportation Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Plante & Moran, PLLC

April 10, 2008

St. Joseph Public Transportation Authority

Statement of Net Assets September 30, 2007

Assets

Current Assets

Cash and cash equivalents (Note 3)	\$ 77,056
Accounts receivable	40,618
Due from other government	56,111
Other assets	<u>21,503</u>

Total current assets 195,288

Capital Assets - Net (Note 4)

414,907

Total assets \$ 610,195

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 69,393
Payroll accrual	12,266
Other liabilities	<u>13,067</u>

Total current liabilities 94,726

Net Assets

Investment in capital assets	414,907
Unrestricted	<u>100,562</u>

Total net assets 515,469

Total liabilities and net assets \$ 610,195

St. Joseph Public Transportation Authority

Statement of Activities Year Ended September 30, 2007

Operating Revenue - Charges for services	\$ 286,648
Operating Expenses - Services	
Operations	515,417
Maintenance	98,187
General administration	373,719
	<hr/>
Total operating expenses	987,323
	<hr/>
Net Operating Loss	(700,675)
Nonoperating Revenues - State of Michigan operating grants	
Operating assistance (Act 51)	343,145
Specialized services - Operating assistance	12,765
Other	14,250
Federal operating grants - Federal section 5311 monies	113,031
Other contributions	66,502
	<hr/>
Total nonoperating revenues	549,693
	<hr/>
Loss Before Capital Contributions	(150,982)
Capital Contributions	
M.D.O.T Grant 2002-0693/Z3	10,545
M.D.O.T Grant 2002-0693/Z12	118,111
M.D.O.T Grant 2002-0693/Z15	51,695
M.D.O.T Grant 2002-0693/Z16	51,695
	<hr/>
Increase in Net Assets	81,064
Net Assets - Beginning of year	434,405
	<hr/>
Net Assets - End of year	<u><u>\$ 515,469</u></u>

St. Joseph Public Transportation Authority

Statement of Cash Flows Year Ended September 30, 2007

Cash Flows from Operating Activities

Receipts from customers	\$ 404,073
Payments to suppliers	<u>(848,969)</u>

Net cash used in operating activities (444,896)

Cash Flows from Noncapital Financing Activities -

Cash received from federal and state grants 781,739

Cash Flows from Capital and Related Financing Activities -

Additions to property and equipment (281,613)

Net Increase in Cash and Cash Equivalents 55,230

Cash and Cash Equivalents - Beginning of year 21,826

Cash and Cash Equivalents - End of year \$ 77,056

Reconciliation of Net Operating Loss to Net Cash from Operating Activities

Net operating loss \$ (700,675)

Adjustments to reconcile net operating loss to net cash
from operating activities:

Depreciation 91,753

Changes in assets and liabilities:

Receivables 62,227

Due from other government 55,198

Other assets 380

Deposit on future asset 53,818

Accounts payable 36,232

Accrueds 12,266

Unearned revenues (56,095)

Net cash used in operating activities \$ (444,896)

St. Joseph Public Transportation Authority

Notes to Financial Statements September 30, 2007

Note 1 - Nature of Entity

St. Joseph Public Transportation Authority (the "Authority") was established as a legal entity pursuant to the Public Transportation Authority Act - Public Act 196 of 1986, as amended. The Authority was formed to coordinate transportation for human service agencies in St. Joseph County, Michigan. The Authority has the capability and the authority to provide public transportation to the general public in the area serviced.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of St. Joseph Public Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The Authority is governed by a seven-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be involved in the reporting entity. The criteria include oversight responsibility, scope of public service, and special financing relationships. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

The Authority receives federal and state financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Authority provides special services on a contractual basis to several nonprofit and governmental agencies within St. Joseph County.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow private sector standards issued after November 30, 1989.

St. Joseph Public Transportation Authority

Notes to Financial Statements September 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

The statement of activities distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the principal ongoing operations. The Authority's principal operating revenue relates to charges for transportation services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Accounting - The accounts of St. Joseph Public Transportation Authority are organized as an Enterprise Fund, which is used to account for its operations as a provider of transportation services. These services are financed primarily through user charges.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - For the purpose of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables - All receivables are shown as net of an allowance for uncollectible amounts. At September 30, 2007, the allowance was \$0.

Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond the current fiscal year are recorded as prepaid items using the consumption method.

Capital Assets - Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years, with the exception of assets purchased with federal or state grants which are capitalized regardless of amount or the estimated useful life. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buses	5 years
Equipment	5 to 10 years
Building	39 years

St. Joseph Public Transportation Authority

Notes to Financial Statements September 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consisted of capital assets, net of accumulated depreciation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Authority has not adopted an investment policy. The Authority has designated one bank for the deposit of its funds.

The Authority had no investments at September 30, 2007. Only bank deposits are included on the statement of net assets under cash and cash equivalents.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had no bank deposits that were uninsured and uncollateralized.

St. Joseph Public Transportation Authority

Notes to Financial Statements September 30, 2007

Note 4 - Capital Assets

The cost of property, plant, and equipment is summarized as follows:

	Balance October 1, 2006	Additions	Balance September 30, 2007
Capital assets not being depreciated -			
Construction in progress	\$ -	\$ 9,521	\$ 9,521
Capital assets being depreciated:			
Buses	886,254	210,996	1,097,250
Building	-	49,733	49,733
Shop equipment	63,960	11,363	75,323
Subtotal	950,214	272,092	1,222,306
Accumulated depreciation:			
Buses	(703,013)	(80,624)	(783,637)
Building	-	(1,275)	(1,275)
Shop equipment	(22,154)	(9,854)	(32,008)
Subtotal	(725,167)	(91,753)	(816,920)
Net capital assets being depreciated	225,047	180,339	405,386
Net capital assets	<u>\$ 225,047</u>	<u>\$ 189,860</u>	<u>\$ 414,907</u>

Depreciation expense was \$91,753 for the year ended September 30, 2007.

Note 5 - Risk Management

The Authority participates in a public entity risk pool for its general and automobile liability insurance. The pool is through the Michigan Transit Pool Liability Trust Fund and will cover up to \$4,000,000 per claim subject to a \$5,000 retention level. The Authority also participates in a public entity risk pool for its comprehensive and collision coverage on its vehicles. All claims are subject to a \$10,000 per claim deductible. Settled claims relating to the insurance did not exceed coverage during the current fiscal year.

St. Joseph Public Transportation Authority

Notes to Financial Statements September 30, 2007

Note 6 - Subsequent Event

In October 2007, the Authority was approved for a line of credit of \$75,000 from a local bank to be used for operations.

The Authority purchased a cutaway bus for \$57,000 and placed it in service on April 4, 2008. The bus was fully funded by a federal grant.

A millage was approved in August 2007 for .33 mills per \$1,000, a projected total of \$498,000. The Authority was advanced revenue from St. Joseph County in October 2007 of \$125,000. The Authority has repaid approximately \$35,000 as of April 2008.

Note 7 - Compliance Requirements

Cost Allocation Plans - Not required based on funding

Nonfinancial Data - The methodology used for compiling mileage on OAR Schedule (Nonurban) is an adequate and reliable methodology for recording vehicle mileage.

Depreciation - The depreciation charges do not include any eligible depreciation. Therefore, all depreciation charges are ineligible for reimbursement and have been excluded from the computation of eligible costs to be reimbursed with State Formula Funds.

Capital Money - No capital money was used to pay for operating expenses and none are included in total expenses to be reimbursed with State Formula Funds.

Ineligible Expenses - Ineligible expenses are classified appropriately according to the definition in the local public transit revenue and expense manual. There were no local revenues with associated expenses that would be required to be subtracted out as ineligible.

Other Supplemental Information

St. Joseph Public Transportation Authority

Other Supplemental Information Schedule of Operating Expenses Year Ended September 30, 2007

	Operations	Maintenance	General Administration	Total
Services:				
Advertising fees	\$ 658	\$ -	\$ 4,318	\$ 4,976
Audit costs	-	-	8,414	8,414
Other services	14,178	-	11,434	25,612
Materials and supplies	116,644	23,092	16,131	155,867
Utilities	919	-	16,345	17,264
Casualty and liability costs:				
Liability insurance	39,570	-	-	39,570
Other insurance	-	-	586	586
Purchased transportation services	113,090	57,044	-	170,134
Salaries and fringe benefits	134,195	13,589	313,448	461,232
Miscellaneous expenses	2,410	4,462	2,643	9,515
Operating leases and rentals	2,000	-	400	2,400
Depreciation expense	91,753	-	-	91,753
 Total operating expenses	 <u>\$ 515,417</u>	 <u>\$ 98,187</u>	 <u>\$ 373,719</u>	 <u>\$ 987,323</u>

St. Joseph Public Transportation Authority

Other Supplemental Information Schedule of Expenses by Contract and General Operations Year Ended September 30, 2007

	Nonurban	Specialized Services FY 07	Total
Other services	\$ 26,237	\$ 12,765	\$ 39,002
Materials and supplies	155,867	-	155,867
Utilities	17,264	-	17,264
Casualty and liability costs	40,156	-	40,156
Purchased transportation services	170,134	-	170,134
Salaries and fringe benefits	461,232	-	461,232
Miscellaneous expense	9,515	-	9,515
Operating leases and rentals	2,400	-	2,400
Depreciation	91,753	-	91,753
	<u>91,753</u>	<u>-</u>	<u>91,753</u>
Total expenses	<u>\$ 974,558</u>	<u>\$ 12,765</u>	<u>\$ 987,323</u>

St. Joseph Public Transportation Authority

Other Supplemental Information Maximum Reimbursement Computation State Bus Operating Assistance Year Ended September 30, 2007

	State Operating Assistance - Nonurban	Federal Section 5311
Nonurban eligible operating expenses	<u>\$ 974,558</u>	<u>\$ 974,558</u>
Less ineligible expenses:		
Depreciation	\$ (91,753)	\$ (91,753)
Audit fees (federal only)	-	(8,414)
Bad debts	<u>(84)</u>	<u>(84)</u>
Total ineligible expenses	<u>(91,837)</u>	<u>(100,251)</u>
Total eligible expenses	<u>\$ 882,721</u>	<u>\$ 874,307</u>
	Nonurban (State)	Section 5311 (Federal)
Grant limits:		
Nonurban - 38.6208% of eligible expenses	\$ 340,914	\$ -
Nonurban - 17.0% of eligible expenses	<u>-</u>	<u>148,632</u>
Net eligible expense	340,914	148,632
Grant award	<u>340,914</u>	<u>148,632</u>
Project underpayment - Nonurban	<u>\$ -</u>	<u>\$ -</u>

April 10, 2007

To the Board of Directors
St. Joseph Public Transportation Authority
810 Webber Avenue
Three Rivers, MI 49093

Dear Members of the Board:

We recently completed our audit of the basic financial statements of St. Joseph Public Transportation Authority for the year ended September 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

In planning and performing our audit of the financial statements of St. Joseph Public Transportation Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.
- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Conditions of Accounting Records and Controls

During our audit, we identified several problems with accounting processes and the lack of internal controls during the year ended September 30, 2007 that we feel constitute material weaknesses and several of these items are repeated from the prior year audit recommendations.

We noted that bank reconciliations were not performed or reviewed. Monthly bank reconciliations should agree to the general ledger and be reviewed monthly with documentation of that review.

We noted that several of the prior year's audit entries had not been posted to the general ledger or were posted incorrectly. To provide the board with up-to-date, correct interim financial statements the audit entries should be posted to the general ledger to assure that it agrees to the audited financial statements.

We noted items that had been deposited or cleared the bank that had not been posted to the general ledger. Although we understand there was transition in the beginning of the year, we highly recommend monthly bank reconciliations be prepared to identify any missed items.

We noted a significant segregation of duties issue around the cash receipting function. The receiving of cash, depositing to the bank and recording amounts in the general ledger are performed by one person. The billing function and posting of payments to accounts receivable is also performed by the same individual. This is a significant area of risk (posting errors, potential misappropriation of assets), and we recommend having another person involved in the cash receipting, billing, and posting functions. This would add an additional control over the Authority's cash and recordkeeping.

During the audit, we prepared several adjusting journal entries which indicated the cash basis of accounting was used throughout the year. The accrual basis of accounting is needed to be in compliance with generally accepted accounting principles.

We noted the following items that are considered significant deficiencies as defined above:

During our review of the internal controls of the payroll processes, we noted that due to the small finance staff, since basically one person controls all the functions around payroll without a review process, the controls are limited around this process. Potential risks include unauthorized increase in pay rate and ability to add "phantom" employees. In addition to having two signatures on each check, one of which is a board member, we recommend that the director keep a check log separate from the finance department to account for all checks used. This will add an additional control over the payroll check writing process. We also recommend that the director review a listing of pay rates at least on a quarterly basis and have appropriate documentation of this review.

We would like to thank SuEllen Headley, director, and Cathy Hopkins, bookkeeper, for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

This communication is intended solely for the information and use of management, the board of directors, others within the organization, and federal and state regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Sharon L. Vargo". The signature is written in a cursive, flowing style.

Sharon L. Vargo, CPA
Partner